

OFFICE OF THE
ARIZONA
STATE
TREASURER



HON. DOUG DUCEY
TREASURER

INVESTMENT
PHILOSOPHY

SAFETY
before
LIQUIDITY
before
YIELD



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Inside the Vault

The Arizona State Treasurer's Quarterly Update

Volume III, Issue IV

Q4 2013

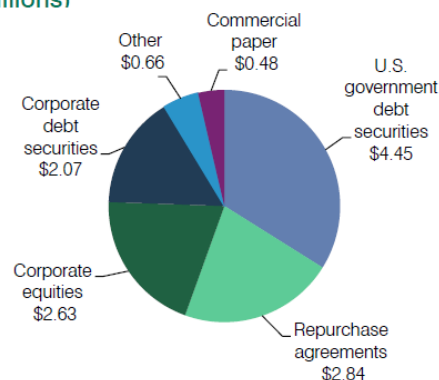
FY13 Annual Audited Financial Statements

The Treasurer's Office delivered its Fiscal Year 2013 Annual Audited Financial Statements to the Governor on October 31, 2013.

As of June 30, 2013, the Treasurer's Office had investments totaling **\$13.1 Billion**. Approximately 24 percent was held in investment trust funds and approximately 76 percent was held in an agency capacity.

Arizona law allows the Treasurer to invest in only certain types of securities. The graph to the right provides a breakdown of the fair value of the combined investments.

Total investments by type totaling \$13.1 billion
June 30, 2013
(In billions)



Highlights of the report include:

- Total earnings distributed to state and local taxpayers were **\$127.6 Million**
- The Permanent Land Endowment Trust Fund totaled **\$4.1 Billion**, from which **\$67.4 Million** of investment earnings were distributed to the beneficiaries
- Non-endowment funds totaled **\$9 Billion**, from which **\$60.2 Million** was distributed to pool participants
- Custody of performance bond's cash and securities totaled **\$3.6 billion**
- State shared revenue distributions totaled **\$9.5 Billion**

The Office of the Arizona State Treasurer is responsible for preparing annual financial statements, maintaining effective internal controls, and being accountable for its use of public monies. The Office of the Auditor General Office audits those financial statements annually.

The Auditor General issued a report that concluded the information in the Treasurer's FY 2013 Financial Statements is reliable, and a report that did not include any deficiencies in the Treasurer's Office internal control and compliance.

The entire report can be accessed online at www.aztreasurer.gov or www.azauditor.gov.

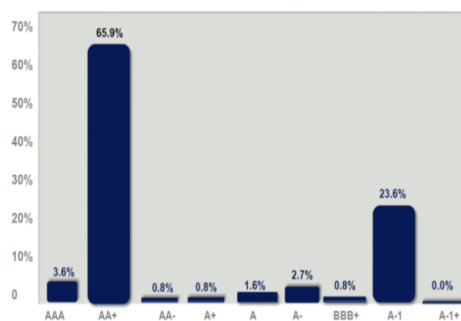
LGIP Pool 5: Short-term fund

AT A GLANCE

- \$1.19 Billion in assets with Net Asset Value at \$1.000 as of 9/30/2013.
- Diversified investments weighted to highly rated Commercial Paper, Repurchase Agreements and Agencies/Treasuries.
- Continues to maintain the highest rating of AAAF/SI+.
- Weighted Average Maturity is 35 days.
- Planning to add more short dated corporate bonds and commercial paper in the next quarter as overnight repo rates continue to be extremely low.

Safety

Continues to receive highest rating from Standard & Poor's: AAAF/SI+

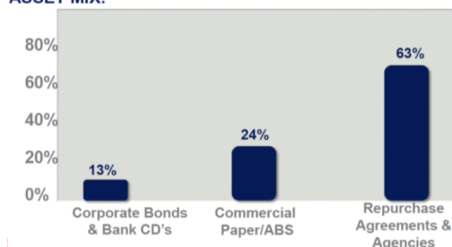


Liquidity

Weighted Average Maturity: 35 days on 9/30/2013

DURATION: 100% from 0-1 yrs

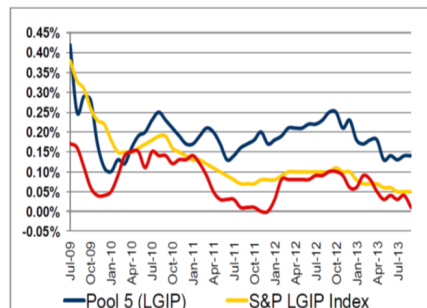
ASSET MIX:



Yield

.14% FYTD

.05% FYTD (S&P LGIP Index)

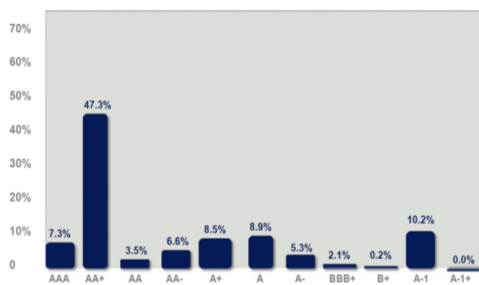


**Pool 5
beat its
benchmark by
9 basis points
in Q1 FY 14**

LGIP Pool 500: Medium-term fund

Safety

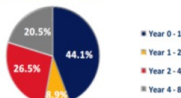
AA Weighted Average Rating



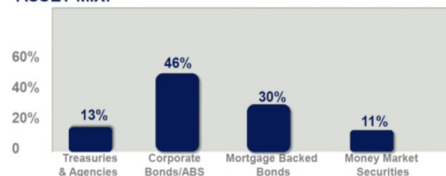
Liquidity

Effective Duration: 1.95 years on 9/30/2013

DURATION:



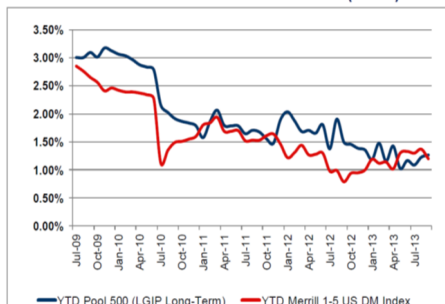
ASSET MIX:



Yield

1.20% FYTD

1.29% FYTD (Index)



**Pool 500
Yielded 120
Basis Points
in Q1 FY 14**

AT A GLANCE

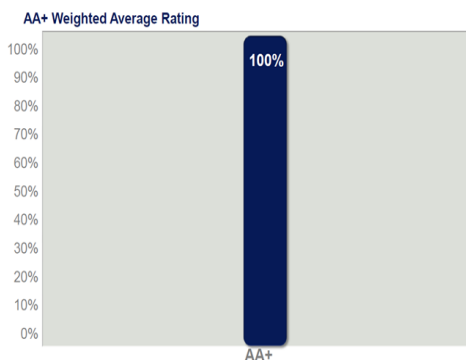
- \$285.3 Million in assets with Floating Net Asset Value at \$1.0304 as of 9/30/2013.
- Diversified fund containing Treasuries, Agencies, Corporate Bonds and Mortgages.
- The effective duration is 1.95 years.
- Keeping the fund short with 53 % of the investments maturing under two years.
- Maximum exposure to any credit at 2.5%.
- Weighted Average Rating of all the securities is AA.

Pool 7 LGIP-GOV: Short-term fund

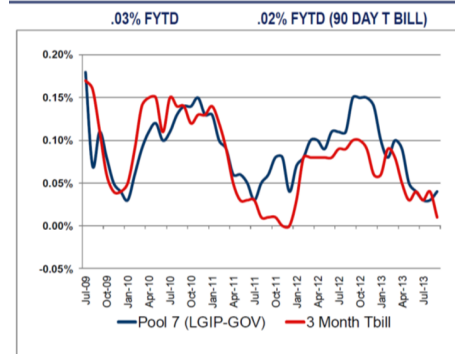
AT A GLANCE

- \$861 Million in assets with Net Asset Value at \$1.00 as of 9/30/2013.
- Invested in highly liquid, low-risk securities that are backed by the full faith and credit of the U.S. Government.
- Overall rating is AA+, which reflects the S&P downgrade of U.S. debt.
- Weighted Average Maturity is 54 days.
- Overnight repo and T-bill rates continue to be at extreme lows.

Safety



Yield

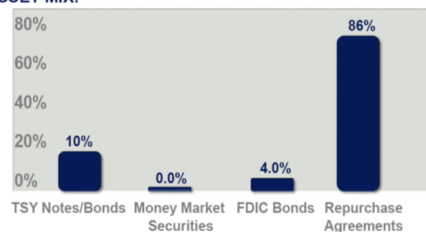


Liquidity

Weighted Average Maturity: 54 days on 9/30/2013

DURATION: 100% from 0-1 yrs

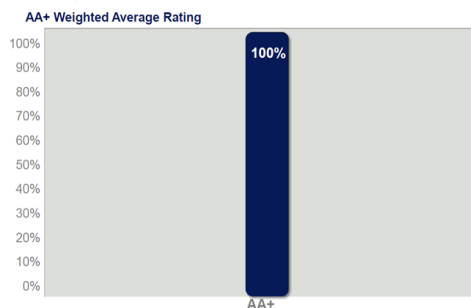
ASSET MIX:



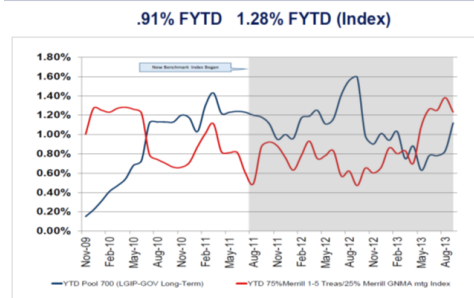
**Pool 7
beat its
benchmark by
1 basis point
in Q1 FY 14**

Pool 700 LGIP-GOV: Medium-term fund

Safety



Yield



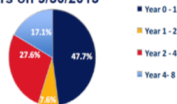
AT A GLANCE

- \$235.4 Million in assets with Floating Net Asset Value at \$1.0012 as of 9/30/2013.
- All securities are backed by the full faith and credit of U.S. Government including Treasuries, FDIC paper and GNMA Mortgages.
- The effective duration is 2.46 years.
- Keeping the fund short with 55.6% of the investments maturing in under two years.
- Weighted Average Rating of all the securities is AA+.

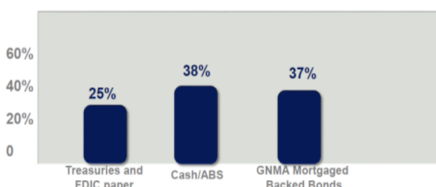
Liquidity

Effective Duration: 2.46 years on 9/30/2013

DURATION:



ASSET MIX:



**Pool 700
Yielded 91
Basis Points
in Q1 FY 14**

OFFICE OF THE
ARIZONA
STATE
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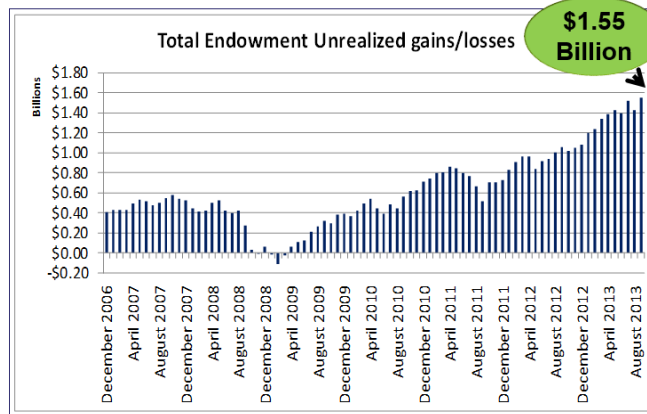
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View AZ's Daily Cash Balance at www.AZCheckbook.com

The Endowment's \$1.55B Unrealized Gains



Arizona's **\$4.33 Billion** Permanent Land Endowment Trust Fund has grown by more than **\$2 Billion** in the past 6.5 years.

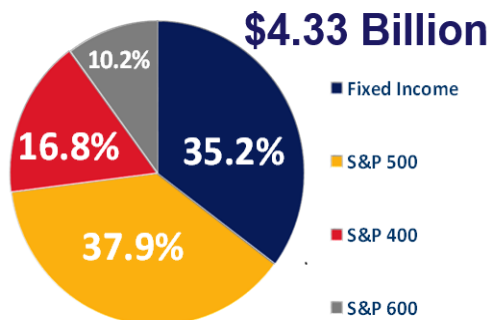
Approximately **\$1.1 Billion** of that growth has come from unrealized investment gains over the same time period, growing

from **\$400 Million** to **\$1.55 Billion**. The balance of the fund's growth has come from State Land sales.

One of the reasons the Endowment returns are growing is the increase in allocation to equities to 60% from 50% in 2011. As a result, expected annual returns for the fund for the next 20 years is expected to increase to 6.9% from 6.3%. For fiscal year 2013 the Endowment returned **12.94%**.

Land Endowment Asset Allocation

(as of September 30, 2013)



AZ's Checking Account

FY 2014 Q1 Average
Monthly Cash Balance:

+19% YOY

July = \$1.941 Billion
August = \$1.709 Billion
September = \$1.973 Billion

AZ's Savings Account

Budget Stabilization Fund
(as of September 30, 2013)

\$454,406,366

Monthly Interest Earned:

July = \$371,936
August = \$363,891
September = \$350,000

FY 2014 Q1 Earnings
\$33,282,400

